

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF AUXIER WATER COMPANY, INC.))	CASE NO. 10356
---	--------	----------------

O R D E R

Background

On August 19, 1988, Auxier Water Company, Inc. ("Auxier") filed its application seeking approval of its proposed rate increase. The proposed rates would result in additional operating revenues of \$102,300, a 40 percent increase above the \$253,959 revenues generated by Auxier's existing rates.

The Commission Staff ("Staff") conducted a field review of Auxier's test-period financial records and on December 27, 1988 issued its report. In that report, Staff recommended that Auxier's annual operating revenues be increased by \$77,884, a 30.7 percent increase above Auxier's existing revenues.

On January 31, 1989, Staff issued its Amended Staff Report reflecting additional interest expense, documented subsequent to the issuance of the original report, relating to the purchase of a backhoe. The Amended Staff Report recommended a revenue increase of \$80,767, a 31.8 percent increase above Auxier's existing rates.

The Utility and Rate Intervention Division of the Attorney General's Office ("AG") and the Auxier Community Development Club intervened in this proceeding, and a public hearing was held on

March 7, 1989, in the Commission's offices, in Frankfort, Kentucky.

Witnesses appearing on behalf of Auxier were Phillip Ward, owner and manager of Auxier; and Carlos Miller, Auxier's engineer. Witnesses appearing on behalf of the Auxier Community Development Club were Arnold Moore and Warnie Spurgeon, customers of Auxier. Mark Frost, financial analyst principal of the Commission's Staff, provided testimony and was subject to cross-examination at the hearing.

Unauthorized Rates

On February 22, 1989, Auxier filed a motion with the Commission stating its intent to place the rates in the Amended Staff Report into effect at the end of the suspension period. On February 24, 1989, the Commission issued its Order authorizing Auxier to implement those rates subject to refund. In the Order, Auxier was directed to maintain its records in such a manner that either Auxier, the Commission, or Auxier's customers could determine the amount of any potential refund and to whom due if so ordered.

At the hearing, Mr. Arnold Moore stated that based on his February bill the rate increase was implemented February 18, 1989, and the increase was retroactive for the entire month of February.¹ Auxier agreed that the rates were effective the entire

¹ Transcript, filed March 21, 1989, page 65.

month of February and that the unauthorized amount collected would be refunded if the Commission so ordered.²

Auxier was authorized to implement the rates contained in the Amended Staff Report for service provided on and after February 24, 1989. Based on the evidence presented, the Commission is of the opinion that Auxier implemented the new rates prematurely and, therefore, should refund to its customers the amount charged in excess of the rates authorized, plus interest.

Proposed Adjustments

Mr. Ward proposed that the Amended Staff Report be adjusted as follows:

1. Recognize the increase in premiums on Auxier's health insurance plan, which increased from \$517 to \$640 per month, beginning April 1, 1989.

2. Monthly health insurance expense be increased by \$181 to include the cost of adding a new employee to the health insurance plan.

3. Based on historical levels, test-period legal fees should be expensed rather than amortized.

The increased insurance premiums and the addition of another employee to the insurance plan result in an increase in Auxier's test-period operating expenses of \$3,648.³ Although both

² Ibid., page 66.

³ $\$640 - 517 = \$123 + \$181 = \$304 \times 12 = \$3,648.$

adjustments occurred subsequent to the test period, the Commission is of the opinion that the insurance adjustments reflect the on-going requirements of Auxier and meet the rate-making criteria of known and measurable and, therefore, should be accepted.

On March 21, 1989, Auxier filed a breakdown of legal fees incurred from 1985 through 1989. Based on a review of that breakdown, the Commission notes that Auxier has been involved in the following Commission proceedings: (1) a rate increase (1985), (2) a major construction project (1987), (3) a proceeding to add rules and regulations to its tariffs (1988), and (4) a request for deviation from Commission rules (1987).

Since the level of historical legal fees can be attributable to the above-described specific nonrecurring Commission proceedings, Auxier has failed to support its assumption that either historical or test-period legal fees are representative of future expense levels. Therefore, the Commission is of the opinion that Auxier's request to expense test-period legal fees should be denied and that the fees be amortized, as recommended in the Staff Report.

Revenue Requirements

The Commission is of the opinion and finds that Auxier be granted an increase in rates to produce an annual increase in revenues of \$84,912.⁴ The Commission is further of the opinion

⁴	\$3,648 Increase in Operating Expenses/88% =	\$ 4,145
	Revenue Increase - Amended Staff Report	\$80,767
	Health Insurance Adjustment - Revenue Effect	4,145
		<u>\$84,912</u>

that these rates are sufficient to provide Auxier adequate cash flow and to provide a fair, just, and reasonable return to Auxier's shareholders. Based on the revenue requirement authorized by this Order, the Commission is of the opinion that the rates in Appendix A should be approved for services rendered.

Summary

After review of the evidence of record and being advised, the Commission is of the opinion and finds that:

1. The rates and charges proposed by Auxier will produce revenues greater than those found reasonable herein and should be denied.

2. The findings and recommendations contained in the Amended Staff Report, as adjusted herein, should be adopted as the Commission's own findings.

3. Auxier should refund the unauthorized revenues collected prior to February 24, 1989 plus interest at a rate of 9.81 percent, the average of the "3-month Commercial Paper Rates" for April 1989.

4. The refund plan should begin with sales after June 1, 1989.

5. The refund should remain in effect for 3 months or until such time as the full amount plus interest has been returned to Auxier's customers.

6. Within 30 days of the date the refund plan is completed, Auxier should file with the Commission a summary statement showing a reconciliation of customer billings and the amount refunded.

7. The rates and charges in Appendix A, attached and incorporated hereto, are the fair, just, and reasonable rates and charges to be charged by Auxier for water sold on and after the date of this Order.


8. Within 30 days of the date of this Order, Auxier should file with the Commission its revised tariff sheets setting out the rates approved herein.

BE IT SO ORDERED.

Done at Frankfort, Kentucky, this 18th day of May, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 10356 DATED 5/18/89

The following rates and charges are prescribed for the customers in the area served by Auxier Water Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

<u>Usage Block</u>	<u>Monthly Rate</u>
First 1000 Gallons	\$11.40 Minimum Bill
Next 1000 Gallons	6.55 per 1000 Gallons
Next 6000 Gallons	5.70 per 1000 Gallons
Next 6000 Gallons	4.70 per 1000 Gallons
Over 14,000 Gallons	3.80 per 1000 Gallons

Regency Park Apartments

<u>Usage Block</u>	<u>Monthly Rate</u>
<u>Meter Nos. 1 and 2</u>	
First 14,000 Gallons	\$11.40 per 1000 Gallons
Over 14,000 Gallons	3.80 per 1000 Gallons

<u>Meter No. 3</u>	
First 13,000 Gallons	\$11.40 per 1000 Gallons
Over 13,000 Gallons	3.80 per 1000 Gallons